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Co-Operative Union Ltd.

Dividend

Manchester

1895

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DIVIDEND;

WHAT IT IS, AND HOW IT IS MADE:

A PAPER,

To be read at Members' Meetings or Social Gatherings.

Issued by the Educational Committee of the Co-operative Union Limited.

[For further information as to the work of Education for Co-operators by Co-operators, apply to the Secretary of the above Committee, Long Millgate, Manchester.

MANCHESTER:
Co-operative Printing Society Limited, 92, Corporation Street.

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IT will, perhaps, be best in discussing this question to consider first, how dividends *should* be made, and next, how dividends sometimes *are* made.

I.—The first aim of a co-operative society should be to sell a *genuine article*, and, if the article is of inferior quality, to let the customer know that such is the case. Its second aim should be to sell its articles at *the market rate* of the district in which the Store is situated. Its third aim should be to give a *fair wage* to its employés (some societies give, in addition to wages, a bonus). The fourth aim should be to pay a *reasonable interest* on the capital invested in the Society; to allow liberally for the *depreciation* of its property; and to create a good *reserve fund*.

The difference between what the goods are bought for and the price for which they are sold, after deducting the amount necessary to cover wages, interest, depreciation, and contribution to reserve fund, constitutes the legitimate profit made by the Society. In well-conducted societies a small proportion of the profits (usually two-and-a-half per cent) is devoted to educational purposes, such as reading-rooms, libraries, science and art classes, technical instruction, or courses of lectures for the members and their families. It is found that such expenditure increases the happiness, intelligence, and loyalty of the members, and the general prosperity of the Store. The balance of the profit which is left when these payments have been made is then divided amongst the members in proportion to their purchases at the Store.

From this it will be seen that the dividend depends chiefly upon the profits made, or, in other words, upon the difference between the cost of the goods and the amount for which those goods are

sold. Consequently, members should chiefly watch *not* so much the amount of dividend paid as that there is good management, and that the expenses are kept at a reasonable figure. A big dividend may be secured by *artificially high prices*, by paying *low wages*, by *not depreciating* property, and by *neglecting* the *reserve fund*. But all these methods are foolish, and in the end disastrous to the interests of the Society. For, if the store is to be a success, you must have faithful servants and the confidence of the shareholders who furnish the necessary capital. But your servants will not manage the Store well unless they are paid a fair wage, and the shareholders lose confidence if property is insufficiently depreciated. Moreover, artificially high prices merely tempt members to be disloyal to the Store, and the experience of mankind shows that those who starve education starve their future profits.

How, then, may expenses be kept down if we cannot economise safely in wages, education, depreciation, and reserve fund? One of the best ways to keep down expenses is to assure to the Store a steady trade by dealing exclusively with it. Fluctuations in its trade enfeeble a society. Another good way is to regularly attend the business meetings of the Society, and to criticise the balance sheet; to keep a sharp look out that the committee are purchasing as far as possible through the Wholesale Society; that they are not keeping too large a stock of goods; and that they are using their surplus capital profitably by building houses for members, when required, or by furthering, if possible, some form of co-operative production.

II.—We will now consider the question—*How some dividends are made.* Take an illustration: If two societies exist in close neighbourhood to one another, amongst their members are sure to be a number of *dividend hunters*, who constantly shift their support from one society to another. Such fickle lovers of their own private and immediate interests defeat their own aims, for they ultimately lower the prosperity of both societies by making the future of each insecure. To these persons dividend is everything; consequently, the societies enter into an unwholesome competition. Each committee feels the effect of an unhealthly race for high dividends. The societies neglect this wise rule—to pay a fair wage to their employés; they fail to supply their members with an honest article. The societies may descend lower yet; they may refuse to go into any business which does not return very large profits. No argument is of any avail with them. The convenience of their members becomes comparatively of no account. "Will you go into the butchering business?" some committees have been asked. "No," was the reply, "it would reduce our

dividend." "What!" it was replied, "is the happiness of your customers of no account with you?" No answer is returned to this appeal. The sensible bystander would point out that it is more worth a man's while to trade largely at the Store, even if the dividend be low, than to receive a high dividend on the condition of doing a very small trade. For instance, if a man spends £1 at a store per week when the dividend is 2s. 6d., he gets half-a-crown returned; but if he spent only 15s., then, although the dividend were 3s., he would only receive back 2s. 3d.

But there is even a lower depth for a society to blunder into if the dividend fever has begun to rage. Societies which were formed to trade on the ready-money system have gone so far as to offer their members credit, in order to retain a large number of customers. This is the road to ruin.

Therefore, it will be seen that artificially big dividends fail in their purpose, for their tendency is to impair the quality of the goods, to cause bad management from paying low wages, to prevent societies from starting new business from fear of a reduction of profit, to reduce, in consequence, the *total* profit returnable to the members, and to introduce into Co-operation the credit system, which is the curse of the working classes.

There is still another reason why co-operators should moderate their desire for big dividends. In some districts co-operative societies have become so important, that instead of *following* the shopkeepers in charging certain prices for goods, they take the lead themselves. The result is, that if the members of the societies have a fancy for big dividends, shopkeepers are able to get larger profits on account of the high market price, often at the expense of the very poorest of the community, who are in the toils of debt, and not being able to escape to the Store, suffer from the high prices of goods. To such people, in such a plight, Co-operation, which is a blessing to their wealthier neighbours, is nothing less than a curse. In towns, moreover, where the Store keeps up prices, the "cheap and nasty" speculator soon dresses his deceptive shop windows with attractive bargains.

To sum up, Co-operation should aim at a rate of dividend which should allow three things: (1) The supply of an honest and good article; (2) The sale of the goods at the current lowest rate, or, where the Store leads the trade, at a reasonable profit; (3) The good management which results from the employment of good servants at a fair wage. Dividend then becomes *an honest dividend*, and benefits co-operators while it does not damage the community.

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